

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company consisted of investment holding and the provision of management services. The subsidiaries are mainly engaged in the provision of travel and travel-related services, property development, property agency services, hotel investment and hotel management, financial services and securities broking. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st December, 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 69.

No dividends have been declared in respect of the year.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out on page 73.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

At 31st December, 2002, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (1998 Revision) of the Cayman Islands.

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MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% in the year under review.

DIRECTORS

The Directors of the Company during the year were:

Executive Director:

CHEANG Yoon Hoong

Non-Executive Directors:

Tan Sri Dr. KHOO Kay Peng

KHET Kok Yin

TAN Lian Tee

(appointed on 28th November, 2002)

LOY Yet King

(resigned on 28th November, 2002)

Independent Non-Executive Directors:

Edward SHEN

WONG Kim Ling

In accordance with the Company's articles of association, Mr. KHET Kok Yin and Ms. TAN Lian Tee will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

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DIRECTORS' INTERESTS IN CONTRACTS

Mr. Edward SHEN is a director of, and has a beneficial interest in each of Shen & Partners Limited, SRT Design (China) Limited and SRT Architects Limited, which provide architectural design services to the Group and, in the opinion of the Directors, have received normal professional fees from the Group for such services rendered during the year.

The above transactions are also classified as related party transactions of the Group and are further detailed in note 39 to the financial statements.

Save as disclosed above, in “Significant connected transactions” below and in note 39 to the financial statements, no Director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Tan Sri Dr. KHOO Kay Peng is the chairman and chief executive of Malayan United Industries Berhad (“MUI”), which is a publicly listed company in Malaysia. MUI and its subsidiaries (“The MUI Group”) are engaged in various businesses including retailing, hotels, food and confectionery, property, financial services, travel and tourism in the Asia Pacific, the United States of America and the United Kingdom.

Mr. KHET Kok Yin and Mr. LOY Yet King are directors of MUI, and Mr. CHEANG Yoon Hoong and Ms. TAN Lian Tee are directors of a number of member companies of The MUI Group.

By virtue of the interests of Tan Sri Dr. KHOO, Mr. KHET, Mr. LOY, Mr. CHEANG and Ms. TAN in The MUI Group as mentioned above, they are considered to have interests in the businesses of The MUI Group. Both The MUI Group and MUI Hong Kong Ltd. and its subsidiaries (“The MUI H.K. Group”) are engaged in travel and travel-related services, hotel investment and management services, property development and property agency services, financial services and securities broking which are complementary and synergistic with each other, but not competing pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The MUI H.K. Group operates its businesses mainly in Hong Kong SAR and mainland China, whilst The MUI Group’s operations are outside Hong Kong SAR and mainland China. In essence, the businesses between The MUI H.K. Group and The MUI Group are synergistic to each other. Although both of The MUI H.K. Group and The MUI Group own hotels in Australia, the businesses are complimentary as they are located in different territories.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in share capital and warrants" below, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND WARRANTS

At the balance sheet date, the interests of the Directors in the share capital and warrants of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which are required to be disclosed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were as follows:

(i) The Company

(1) Shares

Name of Director	Number of shares held		Total
	Personal interest	Corporate interest	
Tan Sri Dr. KHOO Kay Peng	—	1,763,911,657 <i>(Note)</i>	1,763,911,657
CHEANG Yoon Hoong	19,918,500	—	19,918,500
KHET Kok Yin	6,807,500	—	6,807,500

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(2) Warrants

Name of Director	Number of units of warrants held		Total
	Personal interest	Corporate interest	
Tan Sri Dr. KHOO Kay Peng	—	200,716,650 <i>(Note)</i>	200,716,650
CHEANG Yoon Hoong	2,396,210	—	2,396,210
KHET Kok Yin	2,456,842	—	2,456,842

(ii) Associated corporation

Name of Director	Nature of interest	Number of shares held
Morning Star Financial Services Limited ("MSFS")	Tan Sri Dr. KHOO Kay Peng Corporate <i>(Note)</i>	8,192,500 ordinary shares of HK\$1 each

At the balance sheet date, certain Directors also held qualifying shares in certain subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

Note: 979,572,985 shares issued by the Company and 8,192,500 shares issued by MSFS were held by Firstway International Investment Limited ("Firstway"), and 784,338,672 shares and 200,716,650 warrants issued by the Company were held by Bonham Industries Limited ("Bonham"). Both of Firstway and Bonham are companies controlled by Tan Sri Dr. KHOO Kay Peng.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Name	Age	Position held	Number of years of service	Business experience
Tan Sri Dr. KHOO Kay Peng	64	Chairman	9	<p>Tan Sri Dr. KHOO is the chairman and chief executive of Malayan United Industries Berhad ("MUI"), which is a diversified group with business interests in the Asia Pacific, the United States of America ("USA") and the United Kingdom ("UK"). He is also the chairman of Firstway International Investment Limited, Hong Kong (a substantial shareholder of the Company), Laura Ashley Holdings plc and Corus & Regal Hotels plc, UK. Tan Sri Dr. KHOO is a director of SCMP Group Limited and The Bank of East Asia, Limited in Hong Kong. Previously, Tan Sri Dr. KHOO had served as the chairman of the Malaysian Tourist Development Corporation (a Government Agency), the vice chairman of Malayan Banking Berhad and a trustee of the National Welfare Foundation. He is currently a trustee of the Malaysian Humanitarian Foundation and Regent University, Virginia, USA. Tan Sri Dr. KHOO is also a board member of Northwest College, Seattle, USA, as well as a council member of the Malaysian-British Business Council and the Malaysia-China Business Council.</p>

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Name	Age	Position held	Number of years of service	Business experience
CHEANG Yoon Hoong	53	Managing Director	6 ¹ / ₂	Mr. CHEANG is a Chartered Accountant and is a director of a number of subsidiaries of MUI. He has more than twenty years' experience in accounting and finance, banking and corporate services.
KHET Kok Yin	56	Director	6 ¹ / ₂	Mr. KHET has more than twenty years' experience in the financial and banking fields. Mr. KHET is a director on the boards of numerous companies in The MUI Group. He is currently the managing director of Pan Malaysian Industries Berhad, Pan Malaysia Holdings Berhad, Pan Malaysia Capital Berhad and PM Securities Sdn Bhd.
TAN Lian Tee	48	Director	1 month	Ms. TAN is a Fellow member of the Chartered Insurance Institute (UK), a Fellow member of the Malaysian Insurance Institute and had served in the insurance industry in various capacities for more than twenty years. Ms. TAN also holds a Masters Degree in Business Administration from the University of Western Sydney and is currently the managing director of Metrojaya Berhad, a retailing company listed on the Kuala Lumpur Stock Exchange. She also sits on boards of various member companies in The MUI Group.

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Name	Age	Position held	Number of years of service	Business experience
Edward SHEN	52	Director	10	Mr. SHEN has more than twenty-five years' experience in the architectural and property development fields.
WONG Kim Ling	66	Director	4	Mr. WONG has more than thirty years' experience in the financial and banking fields, with thirteen years as the chief executive officer with a Malaysian bank in Hong Kong. He was also an executive director of a property company, which is a listed company in Hong Kong, for three years.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, the interests of persons, other than the Directors, owning 10% or more of the share capital of the Company as recorded in the register required to be kept under Section 16 of the SDI Ordinance were as follows:

Name	Number of shares held
Norcross Limited — <i>Note (a)</i>	979,572,985
Cherubim Investment (HK) Limited — <i>Note (a)</i>	979,572,985
Firstway International Investment Limited ("Firstway") — <i>Note (b)</i>	979,572,985
Bonham Industries Limited ("Bonham") — <i>Note (b)</i>	784,338,672

Notes:

- (a) *The interests of these companies in the shares of the Company are included in the interests held by Firstway.*
- (b) *The aggregate of the interests of Firstway and Bonham in the shares of the Company has also been disclosed by Tan Sri Dr. KHOO Kay Peng under the heading "Directors' interests in share capital and warrants" above.*

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SIGNIFICANT CONNECTED TRANSACTIONS

(i) Acquisition of additional equity interest in Morning Star Financial Services Limited (“MSFS”)

On 5th March, 2002, the Company entered into a sale and purchase agreement with Firstway International Investment Limited (“Firstway”), a substantial shareholder of the Company holding approximately 40.57% interest in the issued share capital of the Company, for the acquisition of a further 8,192,500 ordinary shares of MSFS, a subsidiary of the Company, at a consideration of HK\$8,684,050. Firstway is controlled by Tan Sri Dr. KHOO, the Chairman and a Non-Executive Director of the Company. Accordingly, the transaction as mentioned above constituted a connected transaction for the Company. Upon the completion of this transaction, the Company’s interest in MSFS increased to approximately 78.35%.

A press announcement containing details of the aforesaid transaction was duly released on 5th March, 2002 in compliance with the provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited in respect of connected transactions.

(ii) Contract with Shen & Partners Limited (“Shen & P”)

On 8th March, 2002, Jubilation Properties Limited (“JPL”), an indirect subsidiary of the Company, entered into a contract with Shen & P in respect of the appointment of Shen & P as JPL’s design consultants to provide consultancy services in respect of the masterplanning for Phases VIII and IX of Morning Star Villa (“MSV”) and architectural designs for Phase VIII of MSV at a total consideration of HK\$2,240,000. As Mr. Edward SHEN (“Mr. SHEN”), an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P, Shen & P is an associate of Mr. SHEN as defined in the Listing Rules. Accordingly, the entering into the aforesaid contract by JPL constituted a connected transaction for the Company.

A press announcement containing details of the aforesaid transaction was duly released on 8th March, 2002 in compliance with the provisions of the Listing Rules in respect of connected transactions.

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PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms, as they are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the articles of association of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two Independent Non-Executive Directors and a Non-Executive Director of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

CHEANG YOON HOONG

Managing Director

Hong Kong, 26th March, 2003